

Before the
State Corporation Commission
of Virginia

Ex Parte: In the matter concerning *
the provision of default service to *
retail customers under the provisions * Case No. PUE- 2002-00645
of the Virginia Electric Utility *
Restructuring Act *

Comments by Allegheny Power

On December 23, 2002 the Commission issued an order initiating this proceeding for the purpose of investigating the provision of default service to retail customers under the terms of Virginia's Electric Utility Restructuring Act ("Act"). On May 1, 2003, the Commission Staff issued a Report containing its recommendations on the components of default service and for establishing appropriate programs for making such services available to retail customers. Allegheny Power ("AP" or "the Company") offers the following comments on the conclusions and recommendations contained in Staff's Report dated May 1, 2003.

Recommendation No. 1: Staff recommends the Commission determine that effective January 1, 2004, and until modified by future order of the Commission, the components of Default Service include all elements of Electricity Supply Service as defined by the Commission's Rules Governing Retail Access to Competitive Energy Services.¹

AP supports Staff's recommendation concerning the components of default service. AP agrees that default service should consist of the same components as Electricity Supply Service. Consistent with the definition of default service in the Commission's Rules Governing Retail Access to Competitive Energy Services, default service would include generation, or when provided together, generation and transmission. AP does not support separating default service into multiple components.

¹ 20 VAC 5-312-10: "Electricity supply service" means the generation of electricity, or when provided together, the generation of electricity and its transmission to the distribution facilities of the local distribution company on behalf of a retail customer.

Recommendation No. 2: Staff recommends the Commission require Appalachian Power Company, Delmarva Power & Light Company, The Potomac Edison Company, and Virginia Electric and Power Company, effective January 1, 2004, and until modified by future order of the Commission, to provide default service to all retail customers requiring such service within their respective service territories under the rates, terms, and conditions of capped rate Electricity Supply Service.

AP supports Staff's recommendation for the incumbent utilities to provide default service effective January 1, 2004. However, AP points out that this service will only be provided by the incumbent utility under the rates, terms, and conditions of capped rate Electricity Supply Service until the expiration of the capped rate period, which is July 1, 2007. In addition, AP recommends that additional action is necessary to facilitate the development of the competitive retail Electricity Supply market. AP has previously proposed alternatives to Staff for consideration and again offers its assistance and support in developing solutions to enhance market development during the remainder of the capped rate period.

Competitive Bidding

Staff's Report indicates that Staff is not prepared to advise the Commission that the public interest will be served by the establishment of a competitive bidding process at the current time to designate one or more default service providers.

AP supports Staff's position on not requiring competitive bidding at this time. Current statutory provisions, as well as market conditions in Virginia, make it unlikely that a wholesale supplier could provide electric supply at a price below the incumbent utility's price-to-compare during the rate cap period. However, should AP, Staff and other stakeholders identify other alternatives that would enhance the development of the competitive retail Electricity Supply market, this issue should be revisited.

As indicated by the Company's earlier comments in this matter, AP continues to support a wholesale competitive bidding model for default service. The Company believes a wholesale bidding model for default service is consistent with the provisions of the Restructuring Act.

Consistent with the Staff's stated intent to examine default service models in other jurisdictions, the Commission, Staff and other interested parties should review the wholesale bidding model approved by the Maryland PSC in Case No. 8908, *Standard Offer Service*. The Commission-approved Settlement between Maryland's utilities, the Maryland PSC Staff, consumer groups, and various wholesale and retail suppliers defines a procedure for the provision of default service to customers through the competitive selection of wholesale supply. The Settlement makes such services available at market prices. Customers are provided default service protections beyond the assurances required by Maryland's restructuring statute, while permitting utilities to recover their verifiable, prudently incurred costs to procure the electricity plus a reasonable return. The pricing of default service under the Maryland structure should provide retail

suppliers an opportunity to compete for load, thereby stimulating the competitive market. Upon request, AP will present the details of the Maryland model to the work group.

Closing

In closing, AP appreciates the opportunity to comment on the Staff Report dated May 1, 2003, and the Company does not request a hearing in this matter. As noted earlier, AP is interested in continuing discussions with Staff and all stakeholders to consider alternatives that will enhance the development of the competitive retail Electricity Supply market.